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SUBJECT: NIGERIA: ECONOMIC BRIEFS, OCTOBER/NOVEMBER 2005

1. (U) Summary: The GON's single digit inflation target now seems a mirage as inflation figures for August rose to 28.2% from 26.1% in July. Experts expect September figures to be about 21%. In the official markets, the naira was stable at about N130/\$1 as of late October, while parallel market rates stood at N138/\$1. The GON made progress in privatization with the appointment of preferred bidders for Nicon Hilton Hotel and Nicon Insurance; initial payments are still due from both bidders. Banks are making last-minute merger moves to beat the CBN's recapitalization directive. End summary.

2. (U) This economic update includes:

- Macroeconomic Overview
- Banks Scramble to Beat Recapitalization Deadline
- NICON Privatization Completed
- Vodacom Pulls out of NITEL Bid

Macroeconomic Overview

3. (U) Inflation continued its upward trend according to Federal Office of Statistics (FOS) figures. In August, year-on-year inflation rose to 28.2% from 26.1% in July, while the twelve-month average increased to 15.5% from 14.2%. Executives at Financial Derivatives Company (FDC) Limited, a Lagos-based economic think-tank, concurred with the double-digit figures, estimating the index at 22.3% for August. Inflation has been rising, and experts believe inflation figures will increase as December approaches.

4. (U) The naira remained stable at approximately N130/\$1 in official markets largely due to Central Bank of Nigeria (CBN) intervention in the foreign exchange market. The CBN sold USD 380 million in foreign exchange in October at its Dutch Auctions, satisfying 86% of demand. Meanwhile, parallel market rates stood at N138/\$1. Analysts believe the CBN may suspend its huge dollar injections as it begins the IMF-Nigeria debt buy-back program, expected to deplete foreign reserves by about USD 12 billion. Prior to this, average bi-weekly CBN intervention had been about USD 120 million.

Banks Scramble to Beat Recapitalization Deadline

5. (SBU) As the December bank recapitalization deadline draws near, banks, particularly those yet to merge or be acquired, are scrambling to meet the naira 25 billion (USD 192 million) requirement. An official of Gulf Bank, a marginal bank, confirmed that 11 marginal banks have obtained the CBN's pre-merger consent. These banks include: African Express Bank, Assurance Bank, City Express Bank, Fortune Bank, Liberty Bank, Metropolitan Bank, Eagle Bank, Triumph Bank, Fountain Trust Bank, Societe General Bank, and Gulf Bank. These banks intend to coalesce into a single entity known as Alliance Bank. Gulf Bank had earlier been involved in two merger talks, first with First Consolidated Bank - a group of five banks and then with Union Bank, a first generation bank, both of which broke down.

6. (U) According to the CBN, some 69 banks have merged to form about 20 banking groups, of which three (UBA, Access Bank, and Intercontinental Bank) have received final approval to merge and six others (AfriBank Group, IBTC-Chartered Group, Diamond Bank, FCMB Group, First Inland Bank, and Oceanic Bank) have approval-in-principle.

NICON Privatization Completed

7. (U) The GON's Bureau of Public Enterprises (BPE) in October completed the sale of NICON Hilton Hotel and Nicon Insurance. The GON's 51% stake in the hotel was sold to Capital Leisure and Hospitality (CLH), a consortium of companies, including the recently incorporated Transnational

Corporation of Nigeria, for USD 105 million. 70% of Nikon Insurance was sold to Assurance Acquisition Limited (AAL) for USD 47 million.

Vodacom Pulls out of NITEL Bid

18. (U) Meanwhile, South Africa's Vodacom has withdrawn its bid for the Nigerian Telecommunication Limited (Nitel), also up for privatization. Vodacom, which had tendered a joint bid with Telkom, a South African Company, claimed its withdrawal was based on the GON's decision to sell Nitel separately from its mobile arm, M-Tel. However, the BPE claims it had always indicated the mobile outfit would be sold independently. Industry analysts however believe Vodacom's decision may be connected with its ongoing bid to acquire V-Mobile.

19. (U) This cable was cleared by Embassy Abuja.

Browne